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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE - JANUARY 14 - JANUARY 20

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FINANCIAL TIMES LEAD EDITORIAL GLOOMY ON SPAIN

¶1. (U) The FT's January 14 lead editorial is titled "Spain feels the credit squeeze pain: Europe's economic success story may be about to unravel." The editorial focuses on December's bad inflation numbers, falling housing prices and rising unemployment. The FT recommends that the GOS avoid generous tax cuts; take measures to increase competition in retailing, transport and energy; ditch the preference for national champions; increase independence for universities; and allow companies to opt out of collective wage deals. (Comment: The GOS and some businessmen will take issue with this editorial, but it will sting because the FT is widely read by EU elites. The government might challenge the FT assertion that France, unlike Spain, has embarked on needed structural reform; it could argue that the Spanish tax take as a percentage of GDP remains significantly lower than France's, Spain's labor market remains more flexible, and France retains a preference for "national champions.") (FT, 1/14/08)

REAL ESTATE COMPANIES SHUT DOWN IN WAKE OF HOUSING SLOWDOWN

¶2. (U) In the aftermath of the housing market downturn, more and more real estate agents are going out of business. The API, a real estate agent association, estimates that more than half of the 80,000 real estate offices that existed in the beginning of 2007 have closed down. The majority of these closures reportedly are affecting smaller, and less established real estate businesses. API estimates that these closures have resulted in some 100,000 lost jobs. (Comment: The estimate seems high, but there is no doubt that real estate companies are hurting.) (El Pais, January 17)

SENATORS GRASSLEY AND THUNE MEET WITH SECRETARY OF STATE

MEJIA

¶3. (U) Senators Charles Grassley and John Thune, together with DCM, AgCouns and EconOff, met with the Ministry of Industry, Tourism and Trade's Secretary of State (vice minister) for Tourism and Trade, Pedro Mejia January 11 during CODEL Martinez, visit to Spain. Senator Grassley emphasized the importance of science-based decisions in the agricultural biotechnology context. Mejia said that Spain had a relatively "liberal" view with respect to biotechnology. However, even in Spain the technology was controversial and faced NGO opposition, albeit not as strong as in some other EU member states. Senator Thune asked what influence Spain could exercise in Brussels on this issue. Secretary General for Foreign Trade Alfredo Bonet noted that

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it was very difficult to get a qualified majority for biotech approvals in the EU Environment Council, so in the end the Commission was taking decisions in favor of biotechnology. Both Mejia and Bonet noted that commodity price hikes might spur greater liberalization on biotech imports. The Secretary of State asked about the status of the proposed

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elimination of the "splash and dash" tax credit loophole that allows biodiesel producers in the U.S. to import commodities such as soybeans from overseas to the U.S., add a minimal amount of petroleum diesel, and then re-export the biodiesel.

European producers have complained about these imports. Mejia said that he was pessimistic about the prospects for successful conclusion of the Doha Round negotiations because major developing countries were not willing to give sufficiently in terms of industrial and services market access - he emphasized especially Spain's interest in better services access. He noted also that with high agricultural commodity prices, some developing countries now did not see why they should give on industrial goods and services access.

He said that the U.S. was still under pressure to do more on domestic agricultural support. Spain's senior trade representative asserted that the EU had made a good

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agricultural access offer. The Senators expressed support for Doha but were pessimistic about getting support for Trade Promotion Authority (TPA) this year. Finally, there was a lively discussion of the renewable energy mission to Washington and Colorado that Secretary of State Mejia is leading and that post is helping organize. Both Senators were very interested in the mission.

¶4. (U) Comment: This was a very good substantive discussion. However, it is clear that while Spain will continue sometimes to vote in favor of biotechnology liberalization proposals, the Spaniards will continue to tread warily on this issue given their own domestic sensitivities and other equities Spain has in the EU. It was interesting to hear Mejia's strong emphasis on services as the future of Spain's economy.

Unfortunately, however, Spanish services companies have not been aggressive in promoting Doha, although this is true of many other services companies in Europe as well.

EL PAIS SAYS SPAIN A "LEADER" IN INTERNET MUSIC AND MOVIE DOWNLOADS

¶5. (U) Spain's leading daily published an article on internet downloading that cites a 2007 European Advertisers Association (EIAA) study saying that 52% of Spanish internet users download movies and music, vice a European average of 20%. The El Pais story noted that President Sarkozy's proposal to create an independent authority to crack down on illegal internet downloading had generated positive reactions from rights-holders groups in a number of EU Member States, including Spain. However, internet users groups generally opposed the French proposal. The article reports that EU Information Society Commissioner Viviane Reding plans to

submit a proposal in mid-2008 creating (and regulating) a unified EU market in internet-delivered content, which will include rules on uploads and downloads. The story says that P2P downloads are "completely legal" in Spain and points to the 2006 Office of the Prosecutor Circular to prosecutors effectively decriminalizing P2P downloads unless there is a profit (commercial) motive for the download. Although the police have acted against about 20 webmasters, the judiciary has not yet convicted any owners or managers of websites trafficking in pirated material. (Comment: This article provides a detailed and balanced view of what is happening with respect to internet piracy in Spain. Assuming President Sarkozy's proposal to create an independent authority to control internet downloads, it will be interesting see how it works out in practice, among other reasons because the French proposal says that the independent authority to be created will be placed "under a judge." This aspect of the French proposal is something that Spanish rights-holders associations do not highlight because they would prefer not to have work with judges.) (El Pais, 1/12/08)

#### GREENPEACE WANTS SPAIN TO FOLLOW FRANCE ON AG BIOTECHNOLOGY

¶ 16. (U) Greenpeace Spain is attempting to use French President Sarkozy's ban on agriculture biotechnology to try to shame the Government of Spain into a similar ban. Juan Felipe Carrasco, who is responsible for Greenpeace's campaign against agriculture biotechnology in Spain, said: "the conservative government of the most important EU agricultural Member State (France) has taken a responsible decision based on scientific information (to ban agriculture biotechnology). Meanwhile the Government of Spain has succumbed to the power of the chemical and biotechnology giants, and has shown no political bravery to place itself on the side of citizen and environmental interests."..."There are just a few weeks left for the end of this Government's political term, and now is the perfect moment for the Government of Spain to take a similar decision to put society and environmental interests before the dark interests of the agro-chemical multinationals."

¶ 17. (U) The French decision has provided Spanish anti-biotechnology enthusiasts a tremendous tool to pressure the Zapatero Government. However, Spain and France are as different as night and day with regards to cereal grain production and import policies. France is a net grain exporter and Spain a net importer. With record high grain prices and livestock/pork producers and consumers complaining about high agricultural product/food prices, it seems hard to imagine that president Zapatero would follow in Sarkozy's footsteps on this issue: unless, that is, his election campaign team came to believe (somehow) that a similar ban, which would eliminate the production of 75,000 hectares of biotechnology corn production, would bring more voters to support the Government in its bid for reelection in March.

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#### TELEFONICA TO FOCUS MORE ON CHINA AND OTHER GROWING MARKETS

¶ 18. (U) Analysts assert that Telefonica, the world's fifth largest telecoms company, intends to gain a stronger foothold in the growing China market. Telefonica has already begun to inch its way into China through a 5 percent market share ownership of China Netcom which it intends to increase to 10 percent (partially based on expectations that an imminent Chinese telecoms restructuring will benefit China Netcom). In addition, Chairman Cesar Alierta is expected to increase Telefonica's control of Vivo, Brazil's largest mobile operator, which Telefonica currently co-owns with Portugal Telecom. (Financial Times, January 14)

#### IBERIA PRESIDENT COMPLAINS ABOUT SUBSIDIZED MIDDLE EASTERN AIRLINES

¶ 19. (U) Fernando Conte, the president of Iberia Airlines and

of the European Airline Association (AEA), recently complained about the "unfair" advantages enjoyed by some Middle Eastern airlines such as Emirate Airways, Qatar Airways, Etihad, and Gulf Air. Speaking at a recent conference, Conte warned that the national assistance that some Middle Eastern airlines enjoyed left European airlines in a disadvantaged, less competitive position. Conte asserted that European airlines could soon be substituted by these airlines, particularly for long-haul flights. Presumably, Conte will lobby this message to the EC.  
(Expansion, January 16)

#### SPANISH SEND UMBILICAL CORDS ABROAD FOR STORAGE

¶10. (U) Although Spain recently passed legislation allowing private umbilical cord banks, a large majority of Spaniards who save their children's cords are still shipping them to other European countries. In fact, Spain and Italy are the only European countries that do not allow private storage of umbilical cords. In Spain, parents wishing to save their children's cords in country must donate them to a government-funded public bank, which aims to build a reserve of 40,000 cords over the next eight years until a sufficient reserve is created for public transplants. It is estimated that Spaniards currently have stored more than 10,000 cords in private banks outside the country. Valuable genetic information and hopes for future cures are some of the reasons for storing abroad to ensure personal control. Rafael Matesanz, the director of the National Transplant Organization, argues that most of the stem cell treatments that have been developed to date do not require stem cells from the same donor and often cannot use cells from the same donor. (El Pais 1/14)

AGUIRRE